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Mammoth Mart, Inc.

Self Service Discount Department Stores

Annual Report

Year Ended January 28, 1967

DIRECTORS

Max Coffman, Chairman
Henry Gornstein
Alan D. Zaff
Frank H. Brenton
Edward Spector
Belmont Towbin, Partner, C. E. Unterberg, Towbin Co.
Daniel Coven, Financial Vice President, Treasurer and Director of Cole National Corp.
John E. Beard, Ropes and Gray

OFFICERS

Max Coffman, President
Henry Gornstein, Senior Vice President
Frank H. Brenton, Vice President–Treasurer
Alan D. Zaff, Vice President, General Merchandise Manager and Secretary
Edward Spector, Vice President–Financial
Irving S. Getz, Vice President–Advertising
Erwin H. Stone, Vice President–Operations
Nathan Levine, Vice President–Merchandising
Louis Zax, Vice President–Merchandising
Sumner T. Bernstein, Clerk

CORPORATE COUNSEL

Ropes and Gray, Boston, Mass.

AUDITORS

Ernst and Ernst, Boston, Mass.

TRANSFER AGENTS

State Street Bank and Trust Company, Boston, Mass.
Irving Trust Company, New York, N. Y.

REGISTRARS

The First National Bank of Boston, Boston, Mass.
The Bank of New York, New York

EXECUTIVE OFFICES

672 Crescent Street,
Brockton, Mass. 02402

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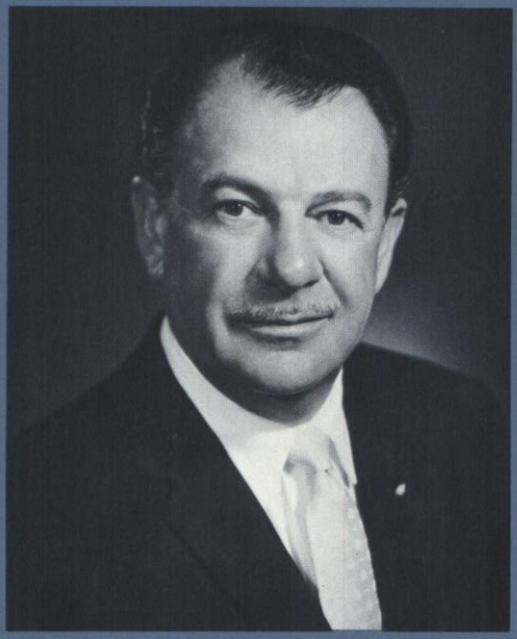
FINANCIAL HIGHLIGHTS

	For the Year Ended January 28, 1967	For the Year Ended January 29, 1966
Total Sales	$44,042,368	$32,881,416
Earnings before Federal Income Taxes	2,052,078	1,564,972
Net Earnings	1,172,078	905,432
Net Earnings Per Share (based on average shares outstanding during year)	$1.65	$1.28
Book Value Per Share	6.15	4.76
Average Number of Shares Outstanding During Year	710,705	708,125
Total Assets	9,182,859	7,254,861
Stockholders' Equity	4,383,995	3,369,384
Cash Dividends Paid	$208,260	$115,489

REPORT
OF THE CHAIRMAN AND PRESIDENT



Max Coffman

April 20, 1967

Dear Shareholder:

Once again I am in the pleasant position of reporting to you on the completion of another outstanding year.

The past year was, for Mammoth Mart, what we consider the most important in our history. Not only did we set records once again in both volume and profits but we took important steps to strengthen the foundation from which will stem the future growth of the company.

Today, Mammoth Mart comprises eighteen discount department stores extending from Maine to Connecticut and this represents an increase of more than double in the size of the chain in the past five years. Our present plans for the next five years call for at least a similar progressive expansion.

Our financial results for the year just ended reflect continued growth. Volume for the twelve months ended January 28, 1967 reached a record **$44.0 million,** an increase of **34%** from the prior year's $32.9 million, and dollar net income was also at a new peak at **$1,172,078,** up **29%** from the $905,432 of 1965. Based on the 710,705 average shares outstanding during the year 1966 - 67 (as adjusted for a 10% stock dividend paid February 1, 1967), our common-share earnings were **$1.65** which compares with $1.28 a share (adjusted) in the prior year.

We are most proud of the record growth to which these financial results testify. It is now to the future that we are looking and we at Mammoth Mart feel that the ground-work has been laid for expansion of our business on a sound constructive basis.

Our basic philosophy as most of you know is to make it as attractive and as easy as possible for our customers to purchase quality merchandise at prices providing excellent value to the shopper. To do this consistently and at the same time earn an adequate rate on our shareholders investment requires management skill of a high order and an organized approach to the business of retailing. Perhaps the single and most telling testimony to the accuracy and efficiency of our forward planning is the consistent success we have had with our new store openings. In every instance in recent years the budgets we have set for volume and profits have been attained or exceeded. In addition, we have been equally successful with our forecasting as a whole.

During the year we have made additions to senior management in reflection not only of past achievements but also to broaden the composition of our top operating group. Nathan Levine and Louis Zax were each appointed Vice President, Merchandising, and Alan Zaff, who is a Vice President of the Company, has become the General Merchandising Manager of the entire Mammoth Mart chain. These moves have made room, at lower management levels, for some of our bright young men to move up, and we view this as one of the real plusses of our recent expansion, for we recognize that our younger people must be provided with the incentive and the opportunity of achieving greater responsibility if they are to become the managers of the future.

In addition, we have added to our Board of Directors, John E. Beard, Ropes & Gray, the Company's Corporate Counsel; Daniel Coven, who is Financial Vice President and Treasurer of Cole National Corp. and Mammoth Mart Vice President, Edward Spector.

During 1966 the Company paid regular quarterly dividends of **12½ cents** per share for an annual total of **50 cents.** At the end of the year, the Board declared a special dividend of **10%,** payable in stock on February 1, 1967 to shareholders of record January 13, 1967. This dividend declaration was made by the Board with the dual purpose in mind of permitting shareholders to participate directly in the improved earnings and outlook for the Company as well as increasing the number of shares of common stock in the hands of the public.

In succeeding pages of this report, you will find some of the details of our operations last year, but I do hope I have given all of you some indication of the enthusiasm and optimism with which all of us at Mammoth Mart view the future. I have concluded each of the last two annual reports to shareholders with the words "I look to the future with confidence", and in each case the results for the succeeding year have been gratifying. I can do no less at this time than to reiterate that statement: "I look to the future with confidence!"

Respectfully submitted,

Max Coffman,
President

1966...and Progress continues

STORE EXPANSION

During the year, we opened six new Mammoth Mart stores in North Haven, Connecticut; Worcester, Greenfield, Weymouth and Ashland, Massachusetts; and Rumford, Maine. (The Ashland store was a replacement for our very first department store unit at Framingham, Massachusetts.) These additions represented an increase of approximately 300,000 square feet of floor space, and brought the total in all of our stores over the one million square foot mark. With the replacement of our original Framingham store, we now have in Mammoth Mart perhaps the most modern, up-to-date and efficient units of any discount department store chain in the country.

Our program for 1967 tentatively calls for the addition of three new units, with a combined floor space of over 152,000 square feet. The schedule calls for the following openings:

Canton, Mass. — 48,000 sq. ft. — May, 1967

Gilford-Laconia, New Hampshire — 52,000 sq. ft. — Summer, 1967.

Brunswick, Maine — 52,000 sq. ft. — Summer, 1967.

There are some rather interesting "firsts" connected with this year's program. Most important, each of the new units will be 100% Mammoth Mart operated . . . there will be no concessionaires in these stores, which should result in improved unit profitability. Also, the Gilford-Laconia unit is our first in the state of New Hampshire.

OPERATIONS

During 1966-67 we continued to move toward complete direct operation of Mammoth Mart departments in all stores. At the start of the year we took over four remaining hardlines departments which we had not previously owned, and their inclusion in our financial results is reflected in the increase in sales from owned departments from 72% in 1965-66 to 77% last year.

After the close of the year we acquired 18 jewelry departments from the concessionaire, as well as two remaining toy departments which we had not operated. We have also arranged to own the cosmetics (health and beauty aids, stationery, and candy) department and the domestic department (linens, drapery, bedding, rugs, curtains and yard goods) in each new unit we open, so that it seems reasonable to expect a continuing increase in the contribution from owned departments as compared to leased departments.

During the year we instituted an intensified training program for store operations, having recognized the necessity for formal training in order to obtain properly qualified store personnel who have the potential for further growth.

We also made significant advances in the integration of our electronic data processing system to store operations. The addition of new personnel to the department has enabled us to expand the functions now on the computer, and we have obtained more timely information for better management control.

FINANCIAL COMMENTS

At the end of January 1967, our financial condition was excellent. As the balance sheet statistics indicate, total inventories were up due to new store openings and additional departments. However, on a comparable store to store basis we were able to reduce our inventories as compared to the end of last year. Our working capital at the end of the year was $3,353,000 and our current ratio was 2.1 to 1.

Prior to the close of the year, the Board of Directors declared a 10% stock dividend which was paid to the shareholders just after the close of the fiscal year. As a result of this 64,844 shares of additional Common Stock and Class B Common Stock were issued on February 1, 1967. This dividend is reflected in the January 28, 1967 balance sheet. In addition, 77,249 shares of Class B Common Stock were exchanged for a similar amount of Common Stock during the year.

New concepts in merchandising . . .

We are always striving to improve the image and merchandising of our stores. The photo on the left shows a section of our Ladies' Department. The area is rugged with commercial carpeting . . . adjustable circular racks coordinate and display the merchandise to achieve that "Fashion Look". An increased use of mannequins helps enhance the fashion image.

Our shoe salon helps project the "New Look" and allows for better merchandising of our shoes on attractive display stands. This area is carpeted and the colorful upholstered chairs offers our customer the utmost in shopping comfort.

A sea of cars fills our parking lot. Grand Opening is always a sight to behold. Men, women and children swarm to Mammoth Mart to partake of the exceptional values offered at our Grand Opening Sale!

Mammoth Mart Now in 18 Handy Locations

Ashland, Mass.	Weymouth, Mass.	Rumford, Maine
Brockton, Mass.	Worcester, Mass.	Scarboro, Maine
Greenfield, Mass.	East Providence, R. I.	Waterville, Maine
Marlboro, Mass.	Johnston, R. I.	Bristol, Conn.
Raynham, Mass.	Bangor,Maine	E. Hartford, Conn.
Salisbury, Mass.	Lewiston, Maine	North Haven, Conn.

Glamorizing a Lumber Department as a coordinated part of our entire store image was achieved at our North Haven, Connecticut store.

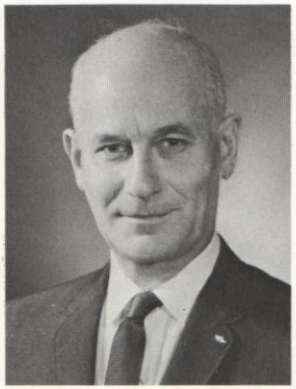
An aisle of colorful loveliness . . . Our artificial flower gondolas with the floral arches add a bright spring look to the store all year long.

A complete Camera, Television and Radio department has been added to several of our stores. Famous brands at lowest competitive prices is a big plus in bringing customers into the store.

Free Color Television drawing promotion was held throughout the chain during our back-to-school season. Shown above is the Mayor of Lewiston, Maine drawing the winning name.

OFFICERS

Max Coffman



Henry Gornstein

Frank H. Brenton

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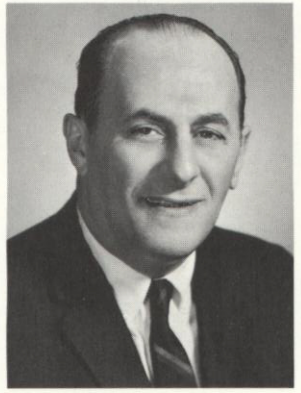
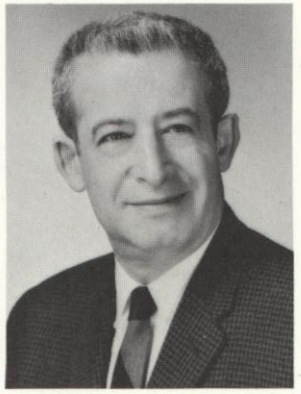
Erwin H. Stone



Nathan Levine



Louis Zax

Mammoth Mart, Inc.

Self Service Discount Department Stores

Financial Statements

Year Ended January 28, 1967

Mammoth Mart, Inc.

and Subsidiaries

Consolidated Balance Sheet

	January 28 1967	January 29 1966
ASSETS		
Current Assets		
Cash	**$ 634,876**	$ 806,667
Certificates of deposit		1,200,000
Accounts receivable	**102,245**	80,750
Merchandise inventories, at the lower of cost or market as determined by the retail inventory method	**5,700,722**	3,634,173
Prepaid expenses	**56,390**	47,613
Total current assets	**6,494,233**	5,769,203
Unamortized Store Opening Costs (Note A)	**189,907**	74,323
Other Assets	**146,391**	89,292
Property and Equipment, on the basis of cost		
Land	**22,101**	22,101
Fixtures and equipment	**2,802,178**	1,776,187
Leasehold improvements	**193,965**	196,311
	3,018,244	1,994,599
Less allowances for depreciation and amortization	**665,916**	672,556
	2,352,328	1,322,043
Total Assets	**$9,182,859**	$7,254,861

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 28 1967	January 29 1966
Current Liabilities		
Accounts payable	**$1,720,321**	$1,091,499
Dividends payable	**52,089**	41,844
Accrued payroll and other expenses	**360,470**	176,622
Taxes, other than federal income taxes	**114,247**	151,682
Federal income taxes	**794,038**	649,922
Current portion of long-term debt	**100,000**	100,000
Total current liabilities	**3,141,165**	2,211,569
Long-Term Debt, Less Current Portion (Note B)	**1,500,000**	1,600,000
Deferred Federal Income Taxes (Note C)	**157,699**	73,908
Stockholders' Equity		
Common Stock, $1 par value: Authorized 1,500,000 shares, (1,000,000 in 1966) Issued and outstanding 458,358 shares, including 41,669 shares to be issued February 1, 1967 (334,750 in 1966)	**458,358**	334,750
Class B Common Stock, $1 par value, convertible into Common Stock on a share for share basis (Note D); Authorized 700,000 shares (500,000 in 1966) Issued and outstanding 254,926 shares, including 23,175 shares to be issued February 1, 1967 (309,000 in 1966)	**254,926**	309,000
Capital Surplus	**1,479,811**	785,268
Retained Earnings (Note B)	**2,190,900**	1,940,366
Total stockholders' equity	**4,383,995**	3,369,384
Long-Term Leases (Note E)		
Total Liabilities and Stockholders' Equity	**$9,182,859**	$7,254,861

Mammoth Mart, Inc.

and Subsidiaries

Statement of Consolidated Retained Earnings and Capital Surplus

	Year Ended January 28 1967	Year Ended January 29 1966
RETAINED EARNINGS		
Retained earnings at beginning of year	**$1,940,366**	$1,300,423
Net earnings for the year	**1,172,078**	905,432
	3,112,444	2,205,855
Dividends:		
Cash on Common Stock ($.455 a share in 1967; $.314 in 1966)*	**(208,260)**	(115,489)
Stock (64,844 shares at fair market value in 1967; 15,000 shares in 1966)	**(713,284)**	(150,000)
	(921,544)	(265,489)
Retained earnings at end of year (Note B)	**$2,190,900**	$1,940,366
CAPITAL SURPLUS		
Capital Surplus at beginning of year	**$ 785,268**	$ 779,018
Excess of option price over par value of shares issued upon exercise of stock option	**32,923**	
Excess of market value over par value of 41,669 (6,000 in 1966) shares of Common Stock and 23,175 (9,000 in 1966) shares of Class B Common Stock issued in connection with 10% (3% in 1966) stock dividend paid February 1, 1967	**648,440**	135,000
Transfer to capital stock accounts of par value of 128,750 shares issued in connection with a 5 for 4 stock split		(128,750)
Sundry other credit	**13,180**	
Capital surplus at end of year	**$1,479,811**	$ 785,268

Per share amounts reflect the 10% stock dividend payable February 1, 1967.
The accompanying notes are an integral part of the financial statements.

Mammoth Mart, Inc.

and Subsidiaries

Statement of Consolidated Earnings

	Year Ended January 28 1967	Year Ended January 29 1966
INCOME		
Sales (including concessionaires')	**$44,042,368**	$32,881,416
Less concessionaires' sales	**10,068,396**	9,190,156
Sales (owned departments)	**33,973,972**	23,691,260
Gross rentals from concessionaires	**1,213,394**	1,090,813
Other income	**133,472**	70,348
	35,320,838	24,852,421
COST AND EXPENSES		
Cost of goods sold and operating expenses	**32,916,063**	23,060,316
Depreciation and amortization	**238,237**	167,182
Interest expense	**114,460**	59,951
	33,268,760	23,287,449
Earnings before federal income taxes	**2,052,078**	1,564,972
Federal Income Taxes	**880,000**	659,540
NET EARNINGS ($1.65 a share in 1967; $1.28 in 1966)*	**$ 1,172,078**	$ 905,432

**Per share amounts reflect the 10% stock dividend payable February 1, 1967.*
The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements January 28, 1967

NOTE A — DEFERRED STORE OPENING COST

Certain nonrecurring preopening costs incurred in connection with the opening of new store units, principally costs of training sales personnel, publicity expenses and advertising costs, are deferred and amortized over a period of twenty-four months commencing with the start of the store operations. New store opening costs deferred during the year amounted to $256,830 and amortization of deferred costs was $141,246 for the year.

NOTE B — LONG-TERM DEBT

Long-term debt outstanding was comprised of the following at January 28, 1967:

5⅞% Note payable to insurance company due in annual installments of $115,000 beginning January 15, 1970	$1,400,000
5⅜% Note payable to bank due in installments of $100,000 on January 15, 1968 and 1969	200,000
	$1,600,000
Less current portion	100,000
	$1,500,000

The related note agreements contain, among other things, limitations and restrictions as to indebtedness, lease rentals, total liabilities, working capital and cash dividends. At January 28, 1967, $866,000 of consolidated retained earnings were available for cash dividends.

NOTE C — DEFERRED FEDERAL INCOME TAXES

For federal income tax purposes all store opening costs are expensed as incurred, and in some instances fixed assets are depreciated on an accelerated basis whereas the financial statements reflect depreciation computed on the straight-line method. Because of these differences between tax and corporate accounting methods, the resulting variance in federal income taxes is reflected in the financial statements as a deferred liability.

NOTE D — CONVERSION OF CLASS B COMMON STOCK

During the year ended January 28, 1967, 77,249 shares of Class B. Common Stock were converted into a like number of shares of Common Stock.

NOTE E — LONG-TERM LEASES

Long-term leases for real property occupied at January 28, 1967 provided for aggregate minimum annual rentals of approximately $1,388,100 (exclusive of taxes, insurance and other expenses to be paid by the lessee). In addition the Company has signed leases or letters of intent to lease six additional stores requiring minimum annual rentals aggregating $408,800. The aforementioned minimum annual rentals classified as to the period within which the related leases expire is as follows: $124,900 prior to 1980; $1,272,100 in 1981–1990; $399,900 in 1991–1993.

NOTE F — STOCK OPTION PLAN

The Company has a plan pursuant to which stock options may be granted to certain key officers and employees to purchase shares of Common Stock at a price not less than the fair market value thereof at the date of grant. Options granted are exercisable over a period not exceeding five years, but no portion of any option may be exercised for at least one year after the date of grant. On May 2, 1966, the stockholders approved an amendment to the Plan making 6938 additional shares available for options. During the year ended January 28, 1967, options to purchase 4350 shares were granted, options for 1005 shares were cancelled, and options for 4,690 shares were exercised. At January 28, 1967, after adjustment to reflect the 10% stock dividend payable February 1, 1967, options were outstanding for the purchase of 25,732 shares at prices ranging from $7.06 to $15.00 per share and 12,146 shares were available for future grant.

Mammoth Mart, Inc.

and Subsidiaries

Statement of Source and Application of Funds

	January 28 1967	January 29 1966
Working capital at beginning of year	**$3,557,634**	$2,562,270
Source of Funds		
From operations:		
Net earnings	**1,172,078**	905,432
Depreciation and amortization of property and equipment	**238,237**	167,182
Amortization of store opening costs	**141,246**	62,678
Increase in deferred federal income taxes	**83,791**	9,811
Total from operations	**1,635,352**	$1,145,103
Proceeds from sales of Common Stock, etc.	**50,793**	
Increase in long-term debt		466,667
	1,686,145	1,611,770
Application of Funds		
Additions to property and equipment, less disposals	**1,268,522**	395,388
New store opening costs deferred	**256,830**	83,050
Cash dividends paid	**208,260**	115,489
Decrease in long-term debt	**100,000**	
Increase in other assets	**57,099**	22,479
	1,890,711	616,406
Working capital at end of year	**$3,353,068**	$3,557,634

ACCOUNTANTS' REPORT

ERNST AND ERNST
CERTIFIED PUBLIC ACCOUNTANTS
BOSTON, MASSACHUSETTS 02110

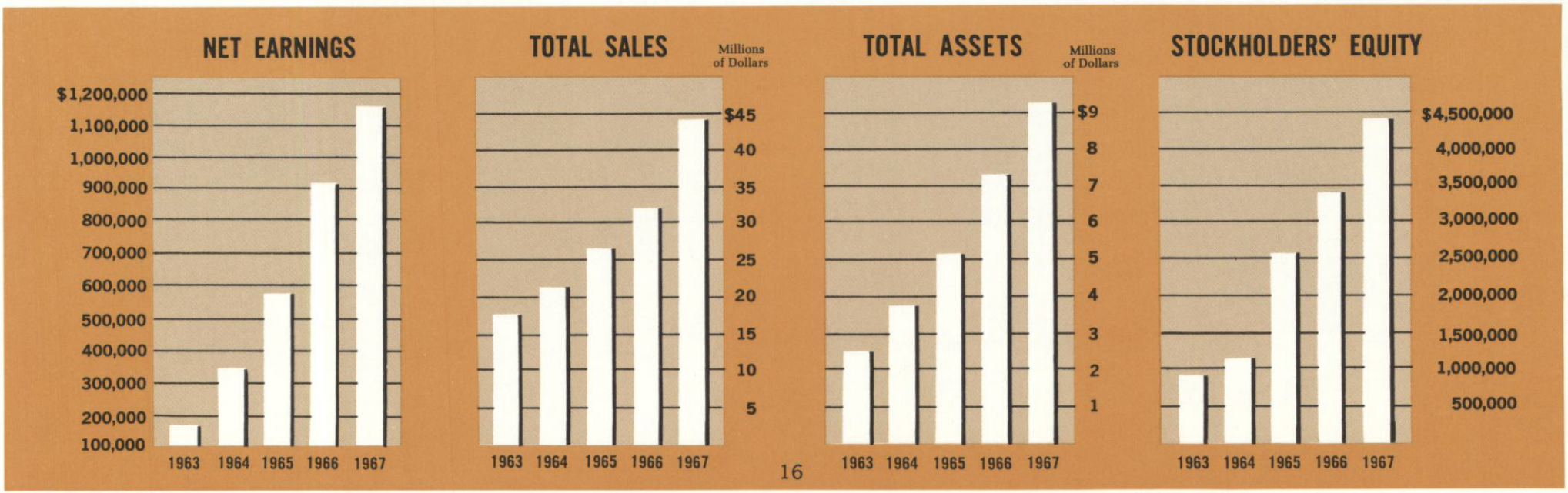
To The Stockholders
Mammoth Mart, Inc.
Brockton, Massachusetts

We have examined the consolidated balance sheet of Mammoth Mart, Inc. and subsidiaries as of January 28, 1967, and the related statements of consolidated earnings, retained earnings and capital surplus, and the statement of source and application of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings and capital surplus present fairly the consolidated financial position of Mammoth Mart, Inc. and subsidiaries at January 28, 1967, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the accompanying statement of source and application of funds presents fairly the information set forth therein.

ERNST & ERNST

Boston, Massachusetts
March 21, 1967



Mammoth MART

5-Year Financial Comparisons

	1967	1966	1965	1964	1963
Operating Results:					
Sales (including concessionaires')	$44,042,368	$32,881,416	$26,720,918	$22,204,579	$15,645,436
Concessionaires' Sales	10,068,396	9,190,156	7,952,235	6,946,042	4,903,905
Sales (owned departments)	33,973,972	23,691,260	18,768,683	15,258,537	10,741,531
Earnings Before Income Taxes and Special Items	2,052,078	1,564,972	947,748	517,537	270,941
Federal Income Taxes	880,000	659,540	383,809	178,716	94,141
Earnings Before Special Items	1,172,078	905,432	563,939	338,821	176,800
Special Items†					(23,525)
Net Earnings for the Year	1,172,078	905,432	563,939	338,821	153,275
Working Capital, Property and Other Assets:					
Current Assets	6,494,233	5,769,203	3,840,518	2,576,426	2,161,432
Less Current Liabilities	3,141,165	2,211,569	1,278,248	1,818,617	1,447,137
Working Capital	3,353,068	3,557,634	2,562,270	757,809	714,295
Property and Equipment — Net	2,352,328	1,322,043	1,093,837	1,000,630	702,225
Other Assets	336,298	163,615	120,764	168,398	125,404
	6,041,694	5,043,292	3,776,871	1,926,837	1,541,924
Capitalization:					
Long-Term Debt	1,500,000	1,600,000	1,133,333	692,534	662,878
Deferred Federal Income Taxes	157,699	73,908	64,097	66,686	50,250
Stockholders' Equity	4,383,995	3,369,384	2,579,441	1,167,617	828,796
	$6,041,694	$ 5,043,292	$ 3,776,871	$ 1,926,837	$ 1,541,924
Significant Comparative Statistics:					
Earnings Per Share—Before Special Items‡*	$1.65	$1.28	$.96	$.60	$.31
Earnings Per Share—Special Items*					(.04)
Net Earnings Per Share‡*	$1.65	$1.28	$.96	$.60	$.27
Net Earnings as Per Cent of Net Sales	3.4%	3.8%	3.0%	2.2%	1.4%
Net Earnings as Per Cent of Stockholders' Equity at Beginning of Year	34.8%	35.1%	48.3%	40.9%	22.7%
Ratio of Current Assets to Current Liabilities	2.1 to 1	2.6 to 1	3.0 to 1	1.4 to 1	1.5 to 1
Book Value Per Share††*	$6.15	$4.76	$3.64	$2.06	$1.46
Average Number of Shares Outstanding During Year*	710,705	708,125	590,105	566,500	566,500

‡*Based on average number of shares outstanding during year.*
**Adjusted for 10% stock dividend payable February 1, 1967.*
††*Based on shares outstanding at end of year.*
†*Cost of registration statement withdrawn in 1963.*

Mammoth MART

SELF-SERVICE • DISCOUNT DEPT. STORE

EXECUTIVE OFFICES

672 Crescent Street

Brockton, Mass. 02402